

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 NSC-05 SP-02 CIAE-00 INR-07

NSAE-00 EB-08 L-03 H-02 PRS-01 OMB-01 FRB-01

AGRE-00 /056 W

-----130050Z 045573 /63

R 130016Z APR 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 1487

INFO TREASURY WASHDC

ALL USCONS MEXICO BY POUCH

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EO11652: N/A

TAGS: EFIN MX

SUBJECT: RECENT CHANGES IN BANK REGULATIONS

REF: MEXICO 3051

1. SUMMARY. BANK OF MEXICO HAS IN RECENT DAYS ALTERED INTEREST RATE STRUCTURE FOR DOLLAR DEPOSITS AND THE LEGAL RESERVE REQUIREMENTS AGAINST DEPOSITS. CHANGES IN INTEREST RATES ON PESO SHOULD BE ANNOUNCED THIS WEEK. END SUMMARY.

2. THE BANK OF MEXICO HAS ALTERED THE INTEREST RATES PAID ON DOLLAR DEPOSITS. INTEREST ON TIME DOLLAR DEPOSITS IS NOW BASED ON LONDON EURODOLLAR RATES FOR SIMILAR MATURITIES PLUS ONE PERCENT. LONDON RATES WILL BE OBTAINED EACH MORNING FROM BANK OF MEXICO. DOLLAR TIME DEPOSITS BY INDIVIDUALS WILL BE GROSSED UP BY AN AMOUNT EQUIVALENT TO THE MEXICAN WITHHOLDING TAX ON INTEREST (21 PERCENT). THIS GROSSING UP DOES NOT APPLY TO DEPOSITS BY BUSINESS ENTITIES. MINIMUM DOLLAR TIME DEPOSIT WILL BE \$8,000 IN THE INTERIOR, AND \$2,000 IN THE FRONTIER ZONE. PREVIOUS MINIMUM WAS \$2,000 THROUGHOUT THE COUNTRY.

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3. LEGAL RESERVE REQUIREMENTS AGAINST PESO DEPOSITS WERE MODIFIED IN SUCH A WAY THAT THE AVERAGE EFFECTIVE RESERVE REQUIREMENT PER TYPE OF FINANCIAL INSTITUTION NOW BECOMES THE LEGAL RATE. PREVIOUSLY, THERE WAS A BASE RATE FOR DEPOSITS AS OF A DATE IN THE PAST AND A MARGINAL RATE FOR THE SUBSEQUENT INCREASE IN DEPOSITS. FOR EXAMPLE, THE

BASE RATE FOR FINANCIERAS (INVESTMENT BANKS WHICH TAKE TIME DEPOSITS) WAS 39 PERCENT AND THE MARGINAL RATE WAS 50 PERCENT. THE EFFECTIVE RESERVE REQUIREMENT FOR ALL FINANCIERAS WAS 41 PERCENT AND THIS, AS OF APRIL 1, BECOMES THE LEGAL RESERVE REQUIREMENTS.

4. IN ADDITION TO THE INDIVIDUAL RATES FOR DEPOSIT, SAVINGS, FINANCIERA (INVESTMENT) AND MORTGAGE INSTITUTIONS THERE IS A SINGLE LEGAL RESERVE REQUIREMENT FOR MULTIPLE BANKS; I.E., FINANCIAL INSTITUTIONS THAT ARE AUTHORIZED TO PERFORM THE FUNCTIONS OF ALL FOUR OF THE ABOVE INSTITUTIONS. THIS REQUIREMENT IS 39.5 PERCENT, WHICH WAS THE EFFECTIVE RESERVE REQUIREMENT FOR THE ENTIRE BANKING SYSTEM.

5. MEXICAN BANKING LAW PROVIDES FOR A 100 PERCENT RESERVE REQUIREMENT AND THE REGULATIONS ARE WRITTEN IN SUCH A MANNER AS TO DICTATE THE COMPOSITION OF THE ASSETS OFFSETTING THE DEPOSIT LIABILITIES. FOR EXAMPLE, FINANCIERAS MUST KEEP 41 PERCENT OF THE OFFSETTING ASSETS TO DEPOSIT LIABILITIES IN THE FORM OF CASH (UP TO 2.5 PERCENT), INTEREST-BEARING DEPOSITS IN THE BANK OF MEXICO, AND CERTAIN GOVERNMENT PAPER HELD IN THE BANK OF MEXICO. AN ADDITIONAL 1.7 PERCENT MUST BE HELD IN CREDITS TO PRODUCERS OF EXPORT GOODS, NEW HOTELS, AND/OR COMMERCIAL CENTERS IN FRONTIER TOWNS. ANOTHER 31.3 PERCENT MUST BE CREDITS FOR VARIOUS ECONOMIC DEVELOPMENT ACTIVITIES AS NOTED BY TREASURY DEPARTMENT. THESE INCLUDE A WIDE RANGE OF INDUSTRIAL ACTIVITIES, PLUS AGRICULTURAL ACTIVITIES, SERVICES AND GOVERNMENT PAPER. ONE PERCENT OF THE CREDITS

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ARE TO BE CHanneled TO COMPANIES PRODUCING THE 90 BASIC CONSUMER GOODS (SEE MEXICO 1018). THIS PRESUMABLY FULFILLS THE GOVERNMENT'S COMMITMENT TO MAKE PESO FINANCING AVAILABLE TO PRODUCERS OF THESE COMMODITIES. THIS SPECIAL ONE PERCENT RULE APPLIES TO DEPOSIT AND SAVINGS INSTITUTIONS AS WELL AS FINANCIERAS. THE BALANCE, 25 PERCENT, CAN BE INVESTED FREELY.

6. THE RESERVE REQUIREMENTS FOR THE MULTIPLE BANKS ARE ORGANIZED SIMILARLY WITH A BASIC 39.5 PERCENT REQUIREMENT FOR EACH DEPARTMENT (DEPOSIT, SAVINGS MORTGAGE AND INVESTMENT). ABOVE THIS, ASSETS ARE DISTRIBUTED AMONG VARIOUS CATEGORIES FOR EACH DEPARTMENT. IN THE CASE OF INVESTMENT DEPARTMENTS OF MULTIPLE BANKS, THE BASIC RESERVE REQUIREMENT IS 39.5 PERCENT, THE SECOND CATEGORY IS 1.7 PERCENT, THE SAME AS FOR INDEPENDENT FINANCIERAS, THE THIRD CATEGORY IS 32.1 PERCENT, THE FOURTH IS 1.0 PERCENT (THE SAME) AND THE FIFTH IS 25.7 PERCENT.

7. THE NEW RESERVE REQUIREMENTS PROVIDE AN INCENTIVE TO MERGE INTO MULTIPLE BANKS WHICH IS WHAT THE GOVERNMENT WANTS.

8. THE RESERVE REQUIREMENTS FOR DOLLAR DEPOSITS REMAIN AS THEY WERE BEFORE. FOR DEMAND DEPOSITS THERE IS AN EFFECTIVE 80 PERCENT MARGINAL RESERVE REQUIREMENT. ON DOLLAR TIME DEPOSITS THE MARGINAL RESERVE REQUIREMENT IS 75 PERCENT.

9. GOM OFFICIALS MAINTAIN THAT THE NEW RESERVE REQUIRE-

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MENTS ON PESO DEPOSITS WILL NOT SERIOUSLY AFFECT THE BANK OF MEXICO'S ABILITY TO FINANCE THE GOVERNMENT. ON THE OTHER HAND, THE EFFECTIVE REDUCTION IN MARGINAL RATES IS A RESPONSE TO PRIVATE SECTOR COMPLAINTS OVER THE LACK OF PESO CREDIT AVAILABILITIES. THOMPSON

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